Advisor Insights

News & Resources for Professional Advisors

Hello from Wayne County Community Foundation!

Many thanks to those of you who have reached out over the last few weeks with questions you're hearing from your clients. We're happy to address three of the topics that appear to be top of mind. Specifically:

- **Disaster giving** is very much on your clients' minds, as it is on all of our minds. Thank you for asking about how the Community Foundation can help your clients navigate the balance between giving globally and giving locally.
- We've seen an uptick in inquiries about the types of funds your clients can use to receive **Qualified Charitable Distributions**.
- We are hearing from more and more of you that your business owner clients are interested in exploring **ways to wrap charitable gifts into an eventual business exit or liquidity event.**

Thank you for all you do for our community! We appreciate the opportunity to work with you as you serve your clients. Together, we are making our community a better place for everyone.

Disaster giving: Perspectives for your clients

No doubt, your news feed includes far more **articles** about philanthropy as a planning tool for your clients than it did just a few years ago. Charitable giving has always been an important subject of client discussions for attorneys, accountants, and financial advisors. What's changed is that widespread coverage of both **major** charitable gifts and the ease of making **online** donations has prompted more of your clients to pay attention to philanthropy.

Among the dozens of reasons to talk with your clients about their charitable giving plans are what many advisors consider to be the top three:

Tax strategies

This is a no-brainer on the list, but still, don't assume that tax strategies will be the driving force for every client. After all, even if the tax savings on dollars donated reaches 35% or even 40%, your client will still wind up with less money in their pocket after making the donation than they would have if they'd never made the donation in the first place.

Happily, though, most Americans are charitable, with at least 50% **reporting** that they give to one or more charitable organizations each year. That means it's likely that at least half of the clients walking into your office are giving to charity, so you need to be able to address the tax aspects of charitable planning. Keep in touch with the Community Foundation to stay current on the basics of tax deductibility, including AGI limitations, understanding the differences between public charities such as a donor-advised fund at the community foundation versus a private foundation, and the benefits of donating highly-appreciated assets to charity. The community foundation is also the go-to resource for more complex giving, such as bequests, Qualified Charitable Distributions where retirement-age clients can give money from their IRAs to charity, and even gifts of real estate or closely-held assets.

Serving clients across generations

Surveys indicate that the **majority** of children inheriting their parents' estates will fire their parents' financial advisor. An aging client base can be extremely dangerous to an advisor's business. Whether you are an attorney, accountant, or financial advisor, you're certainly aware that you need to build relationships with the next generation to stand a chance of retaining the business long-term. That's easier said than done, though, with client confidentiality rules and even just plain old awkwardness frequently standing in the way.

Enter philanthropy. When you work with your clients on their charitable giving plans, there are several ways to include the clients' children and grandchildren in the planning, thereby giving you the opportunity to build strong, multi-generational relationships. By helping your client plan an overall charitable giving strategy, including, for example, naming children and grandchildren as successor advisors to a Donor Advised Fund at the Community Foundation, you'll get to know the family dynamics as well as build relationships with other family members.

Responsibility to assist clients with their charitable goals

Many advisors take philanthropy seriously, adopting a **disciplined approach** and believing that it is their responsibility to understand their clients' charitable goals and implement them to the best of their abilities using the very best tools available in the market. This is frequently the reason so many advisors turn to the Community Foundation for assistance as they serve their charitable clients, whether that assistance is behind-the-scenes or working together with the client.

The Community Foundation's purpose is to serve philanthropic individuals and families, as well as the organizations they support, to maximize overall positive impact on the community's quality of life. The team at the Community Foundation is not only well-versed in the tax rules governing charitable giving, but it is also deeply familiar with the programmatic elements that are critical for a nonprofit organization to deploy a financial donation into meaningful, tangible improvement in the quality of life of the people the nonprofit serves. For advisors, the Community Foundation's expertise and due diligence offer peace of mind that a client's favorite nonprofits have been well-vetted and are in good standing, and that their programs are legitimately serving a community need.

By keeping these three reasons in mind, you'll be better prepared to proactively raise the subject of charitable giving in your upcoming client meetings. We look forward to working together to serve your charitable clients.

How the Community Foundation can help?

The Community Foundation can help your clients fulfill their giving instincts by acting as a secure, knowledgeable, and trustworthy facilitator. Our team personally knows–and regularly vets–hundreds of charities every year, and we can help you and your clients navigate the options for both local and international giving.

Frequently, a Donor Advised Fund at the Community Foundation will be a suitable giving vehicle for your clients. Our team can help connect your clients to the causes they care about by identifying the most effective organizations addressing the critical needs both locally and globally in your clients' areas of interest. Working with the Community Foundation also helps your clients secure robust tax planning benefits that can be missed when a client gives to charity on an impulse.

Finally, the Community Foundation can help your clients steer clear of scams perpetrated via familiar-looking but sham websites and QR codes, both of which proliferate during highly emotional or threatening times surrounding a disaster. While your clients may be tempted to make a gift online or by phone out of compassion in response to a verbal solicitation or a news story, remind them that the Community Foundation has much to offer—safely, securely and advantageously—when it's time to make impactful humanitarian gifts both here and abroad.

Hidden no more: Designated Funds and Field of Interest Funds

Most attorneys, accountants, and financial advisors are well-aware of Donor Advised Funds (DAFs) and the reasons behind their popularity. Especially when a DAF is established at the Community Foundation, this vehicle is an excellent way for your clients to organize their charitable giving and get even more connected to the causes they care about most.

Enter the Qualified Charitable Distribution

Your clients can give nearly any type of asset to a Donor Advised Fund at the community foundation. A notable exception, though, is the **Qualified Charitable Distribution** (QCD). A QCD allows a taxpayer 70 ½ or older to make a direct transfer of up to $100,000 annually from an IRA to a qualifying charity. A DAF is not considered to be a qualifying charity.

Although DAFs cannot accept QCDs, the Community Foundation offers other types of funds that *can* accept QCDs. For example, **Designated Funds and Field of Interest Funds held at the Community Foundation are ideal recipients of QCD transfers.** These fund types are often overlooked, despite the high value they can deliver to your client and to the community.

What is a Field of Interest Fund?

The **Council on Foundations** defines a "Field of Interest Fund" as, "A fund held by a Community Foundation that is used for a specific charitable purpose such as education or health research." Perhaps your client is passionate about rare-disease solutions, feeding the food insecure or preserving works of art, for example. Your client selects the name of the fund (family, cause-related or even nondescript) and then, the knowledgeable team at the Community Foundation distributes grants from the Field of Interest Fund in a way that is aligned with your client's values and charitable wishes outlined in the Fund Agreement.

What is a designated fund?

Designated Funds are defined as, "A type of restricted fund in which the fund beneficiaries are specified by the grantors." These are a good choice for a client who knows they want to support a particular charity or charities for multiple years. The client names the fund and the Community Foundation fulfills the distributions. Made over time, these funds can help the charity's or charities' cash flow planning. Distributions are aligned with your client's wishes set forth in the original Fund Agreement.

QCD reminders

For the client aged 70 ½ through 72, a QCD removes funds from an IRA before the client reaches the age-73 threshold for Required Minimum Distributions (RMDs). This can lessen the eventual income tax hit that accompanies RMDs. And for RMD-applicable clients, the QCD counts toward their RMD. In both cases, the QCD transfers do not fall into the client's taxable income.

QCDs are even more popular now that the $100,000 cap will be indexed for inflation under the **new laws**. Also, under the new laws, a one-time, $50,000 distribution to a charitable remainder trust or charitable gift annuity is now permitted.

Giving a business to charity: Stack the odds in your client's favor

Despite **recent reports** of a 55% decline in charitable giving by the top 50 U.S. donors in 2022, high profile giving by donors associated with well-known businesses has maintained its place in the limelight, even amid recent market volatility and tenacious concerns about inflation and interest rates. Recent examples abound, including last year's gift of Patagonia by founder Yvon Chouinard; the well-reported generosity of philanthropists Melinda French Gates and MacKenzie Scott; and the portion of the **proceeds**, potentially worth $5 billion, from the eventual sale of Subway restaurants that are set to flow to a charitable foundation.

As an advisor to business owners—and collaborating with the Community Foundation—you can help your clients leverage potential future liquidity events to support the community causes they care about most.

Advance **planning** is critical. The Community Foundation team is happy to get involved as early as possible in your discussions with a client about giving part (or all) of a closely-held business to charitable causes. These transactions carry with them layers of complexity, largely around the timing of the charitable gifts in relation to the sale transaction. The best outcomes are achieved through a thoughtful, multi-step process.

Many successful closely-held exit transactions occur only after several **years** of planning—and most of that planning occurs well before potential buyers are even engaged. This planning period is an important time for your client to consider giving ownership shares of the company to a Donor Advised Fund at the Community Foundation, especially knowing that under certain circumstances, the proceeds of the shares held by the Donor Advised Fund will be immune from capital gains taxes if the business eventually does sell, leaving more money to support the client's favorite causes.

You might even consider encouraging your client to give shares to a Donor Advised Fund not all at once, but in increments over time during the business exit planning period (before a buyer is identified). This can help avoid the appearance that the gift is merely a function of the business sale and as such intended to be a tax dodge. If the IRS determines that the stock gifts to charity and the sale of the company are really one and the same event – a "**step transaction**" – the tax benefits of the charitable deduction could be disallowed.

Another essential part of the process is to secure **a proper valuation** of the stock by an independent and qualified appraiser for charitable deduction purposes when the ownership is gifted to the Donor Advised Fund at the Community Foundation.

Please reach out to the team at the Community Foundation to discuss how we can help your business owner clients who intend to maximize their future ability to support the charities they love.

The team at Wayne County Community Foundation is a resource and sounding board as you serve your philanthropic clients. We understand the charitable side of the equation and are happy to serve as a secondary source as you manage the primary relationship with your clients. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.